

Message Text

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43

ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 L-02 H-02 PA-02 PRS-01 USIA-15 /099 W

----- 021212

R 041345Z FEB 75

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 3750

INFO AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMEMBASSY LA PAZ

AMEMBASSY QUITO

AMEMBASSY SANTIAGO

UNCLAS LIMA 0920

E.O. 11652: N/A

TAGS: ECON, EIND

SUBJ: ANDEAN PACT: AUTOMOTIVE INDUSTRY SECTORIAL PROGRAM

1. IT WILL BE RECALLED THAT THE JUNTA PRESENTED THE AUTOMOTIVE INDUSTRY PROPOSAL TO MEMBER GOVERNMENTS IN MARCH, 1974. WIDE DIVERGENCE OF VIEWS CAME TO LIGHT DURING EXPERTS MEETINGS IN JUNE AND JULY. INTERGOVERNMENTAL AD HOC COMMITTEE THEN MET JANUARY 20-26, AGAIN WITHOUT POSITIVE RESULTS. THIS MEETING IS SCHEDULED TO BE RESUMED FEBRUARY 5, BUT MAY BE CANCELLED. COMMISSION IS TO CONSIDER THE PROPOSAL ON FEBRUARY 11. THE OUTLOOK IS DIM.

2. KEY ELEMENTS OF THE PROGRAM ARE (A) ASSIGNMENT OF "BASIC MODELS" TO INDIVIDUAL COUNTRIES, ON THE BASIS OF WHICH EACH COUNTRY WOULD SELECT THE SPECIFIC VEHICLE TYPE IT WANTS TO MANUFACTURE (RENAULD R16 OR FIAT 125, ETC.), (B) GRADUAL PHASING OUT OF "PARALLEL VEHICLES", NAMELY THOSE CURRENTLY MANUFACTURED, BUT WHICH WOULD NOT BE UNCLASSIFIED

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SELECTED AS "BASIC MODELS", (C) A COMPLICATED SYSTEM OF

ORIGIN REQUIREMENTS TO ENCOURAGE GRADUAL SPECIALIZATION IN COMPONENT MANUFACTURE, WITH HEADSTART PRIVILEGES FOR BOLIVIA AND ECUADOR, (D) A TRADE LIBERALIZATION PROGRAM AND COMMON EXTERNAL TARIFFS FOR COMPONENTS AND FINISHED PRODUCTS, (E) A SYSTEM TO PERMIT COMPONENT IMPORT/EXPORT ARRANGEMENTS WITH THIRD COUNTRIES ("INTERCAMBIO COMPENSADO"), (F) HARMONIZATION OF NATIONAL POLICIES AND (G) STANDARDIZATION.

3. A PRINCIPAL PROBLEM IS ASSIGNMENT OF "BASIC MODELS" TO COUNTRIES. THIS ISSUE IS SO SENSITIVE THAT THE JUNTA'S PROPOSAL ON THIS HAS NOT EVEN BEEN OFFICIALLY DISCUSSED AT ANY OF THE MEETINGS TO DATE. VENEZUELA, FOR EXAMPLE, FEELS THAT SINCE IT HAS ONE HALF OF THE ANDEAN AUTOMOTIVE MARKET, IT SHOULD HAVE A CORRESPONDING SHARE OF THE ASSIGNMENTS.

4. HIGH TARIFF PROTECTION FOR TRACTORS AND OTHER ESSENTIAL EQUIPMENT IS NOT REALISTIC. COLOMBIA WANTS COMMON EXTERNAL TARIFF FOR TRACTORS REDUCED FROM 45 TO 20 PERCENT AND FOR TRUCKS AND BUSES FROM 65 TO 40 PER CENT. THE LESS DEVELOPED COUNTRIES AND ALSO PERU FEEL THAT SUCH LOW PROTECTION WOULD DRAMATICALLY REDUCE FEASIBILITY OF LOCAL PRODUCTION.

5. COLOMBIA AND CHILE WANT COMPONENT CLASSIFICATION CHANGED IN SUCH A WAY THAT STANDARD PARTS, SUCH AS STARTERS, ALTERNATORS, VOLTAGE REGULATORS, COILS, HORNS, WINDSHIELD WIPERS, SHOCK ABSORBERS, FLEXIBLE CABLES, ETC., BE FREELY TRADED FROM THE BEGINNING. BOLIVIA AND ECUADOR WANT MORE DETAILED PLANNING IN PLANT ASSIGNMENTS IN ORDER TO ASSURE EQUITABLE SHARING IN NEW PRODUCTION FACILITIES.

6. BOLIVIA AND ECUADOR WANT SLOW INTRA-ANDEAN TRADE LIBERALIZATION IN ORDER TO PROTECT MARKET FOR PRODUCTS ASSIGNED TO THEM. THIS CONFLICTS WITH INTERESTS OF MORE ADVANCED COUNTRIES.

7. ALL COUNTRIES FAVOR PHASING OUT "PARALLEL VEHICLES", BUT COLOMBIA OPPOSES ADMINISTRATIVE ACTION OR APPLICATION
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OF DIFFERENTIAL EXTERNAL TARIFFS. VENEZUELA SEEMS TO VIEW THIS ISSUE SIMPLY IN TERMS OF REDUCING THE NUMBER OF ITS 14 ASSEMBLY OPERATIONS OVER A FIVE YEAR PERIOD. THIS ACTION WOULD BE TAKEN WITH OR WITHOUT THE ANDEAN SECTORIAL PROGRAM.

8. HARMONIZATION OF NATIONAL POLICIES POSES ADDITIONAL PROBLEMS. ECUADOR IS CONCERNED THAT THE PROGRAM WOULD

CONFLICT WITH ITS INDUSTRIAL INVESTMENT INCENTIVES. CHILE
FEELS
THAT DIFFERENT LEVELS OF LOCAL CONTENT IN EXISTING
ASSEMBLY OPERATIONS WOULD CAUSE PROBLEMS. COLOMBIA IS
CONCERNED THAT NATIONAL EXCHANGE RATE AGENCIES COULD

DISTORT COMPETITION. FINALLY, COLOMBIA DOES NOT WANT TO
BOX ITSELF INTO A RIGID LONG-RANGE INTEGRATION PROGRAM
SINCE TECHNOLOGICAL CHANGES COULD DRASTICALLY AFFECT THE
AUTOMOTIVE INDUSTRY IN THE NEAR FUTURE.

9. IN CONCLUSION, AN IMPORTANT FACTOR OBSTRUCTING THE
PROGRAM SEEMS TO BE THE COMMITMENT TO ENCOURAGE ESTABLISH-
MENT OF SOME MANUFACTURING AND ASSEMBLY OPERATIONS IN THE
LESS DEVELOPED COUNTRIES. THE MORE DEVELOPED COUNTRIES,
PARTICULARLY COLOMBIA, HAVE SERIOUS DOUBTS ABOUT THE
ECONOMIC JUSTIFICATION OF THE PROGRAM AS CURRENTLY PROPOSED.

10. MORE REPORTING FOLLOWS.
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